

Interim Condensed Consolidated Financial Statements

Element Fleet Management Corp.

March 31, 2018

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

[unaudited, in thousands of Canadian dollars]

	As at March 31, 2018 \$	As at December 31, 2017 \$
ASSETS		
Cash	86,156	76,637
Restricted funds [notes 6 and 13]	554,355	484,280
Finance receivables [note 3]	13,032,121	12,768,133
Equipment under operating leases [note 4]	1,667,987	1,599,423
Accounts receivable and other assets [note 5]	295,103	315,801
Notes receivable [note 11]	19,792	19,670
Derivative financial instruments [note 13]	31,018	32,026
Property, equipment and leasehold improvements	66,374	67,409
Deferred tax assets	236,035	177,602
Intangible assets	833,431	819,308
Goodwill	1,237,940	1,209,344
	18,060,312	17,569,633
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued liabilities	556,639	582,090
Derivative financial instruments [note 13]	44,599	33,342
Secured borrowings [note 6]	12,723,845	12,307,873
Convertible debentures [note 7]	881,173	875,918
Deferred tax liabilities	51,590	30,327
	14,257,846	13,829,550
Shareholders' equity [note 8]	3,802,466	3,740,083
	18,060,312	17,569,633

See accompanying notes

On behalf of the Board:



Director

Director

Element Fleet Management Corp.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

[unaudited, in thousands of Canadian dollars, except for per share amounts]

	Three-month period ended March 31, 2018 \$	Three-month period ended March 31, 2017 \$
NET REVENUE		
Service and other revenue <i>[note 10]</i>	140,196	158,391
Interest income, net <i>[note 10]</i>	153,168	152,609
Rental revenue	125,859	116,405
Depreciation of equipment under operating leases <i>[note 4]</i>	(95,303)	(89,030)
Direct costs of fixed rate service contracts <i>[note 10]</i>	(11,064)	(10,875)
	312,856	327,500
Interest expense	101,513	89,088
Net revenue	211,343	238,412
OPERATING EXPENSES		
Salaries, wages and benefits	82,265	74,932
General and administrative expenses	33,840	36,690
Depreciation and amortization	5,280	3,725
Amortization of convertible debenture synthetic discount <i>[note 7]</i>	3,424	3,206
Share-based compensation <i>[note 9]</i>	4,547	6,036
	129,356	124,589
BUSINESS ACQUISITION AND OTHER COSTS		
Amortization of intangible assets from acquisitions	11,871	14,821
Restructuring and integration costs	40,811	36,046
	52,682	50,867
Share of loss from and provision in equity accounted investments <i>[note 5]</i>	10,304	10,244
Income before income taxes from continuing operations	19,001	52,712
Provision for (recovery of) income taxes	(2,758)	867
Net income for the period	21,759	51,845
Basic earnings per share <i>[note 12]</i>	\$ 0.03	\$ 0.11
Diluted earnings per share <i>[note 12]</i>	\$ 0.03	\$ 0.11
<i>See accompanying notes</i>		

Element Fleet Management Corp.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE
INCOME (LOSS)**

[unaudited, in thousands of Canadian dollars]

	Three-month period ended March 31, 2018 \$	Three-month period ended March 31, 2017 \$
Net income for the period	21,759	51,845
OTHER COMPREHENSIVE INCOME (LOSS)		
Cash flow and foreign exchange hedges <i>[note 13]</i>	4,873	(31,624)
Net unrealized foreign exchange gain (loss)	140,350	(23,072)
	145,223	(54,696)
Deferred income tax expense (recovery)	1,257	(8,287)
Total other comprehensive income (loss)	143,966	(46,409)
Comprehensive income for the period	165,725	5,436

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

[unaudited, in thousands of Canadian dollars]

	Common share capital \$	Preferred share capital \$	Equity component of convertible debentures \$	Contributed surplus \$	Retained earnings \$	Accumulated other comprehensive income (loss) \$	Total shareholders' equity \$
Balance, December 31, 2017	2,755,536	680,412	46,200	69,450	248,843	(60,358)	3,740,083
Impact of adopting IFRS 9	—	—	—	—	(65,304)	—	(65,304)
Restated opening balance under IFRS 9	2,755,536	680,412	46,200	69,450	183,539	(60,358)	3,674,779
Comprehensive income (loss) for the period	—	—	—	—	21,759	143,966	165,725
Dividends - Preferred shares <i>[note 8]</i>	—	—	—	—	(11,068)	—	(11,068)
Dividends - Common shares	—	—	—	—	(28,527)	—	(28,527)
Net taxes on dividends paid	—	—	—	—	(299)	—	(299)
Employee stock option expense <i>[note 9]</i>	—	—	—	1,856	—	—	1,856
Balance, March 31, 2018	2,755,536	680,412	46,200	71,306	165,404	83,608	3,802,466
Balance, December 31, 2016	2,803,336	533,656	46,200	78,974	232,836	286,352	3,981,354
Comprehensive income (loss) for the period	—	—	—	—	51,845	(46,409)	5,436
Dividends - Preferred shares <i>[note 8]</i>	—	—	—	—	(8,912)	—	(8,912)
Dividends - Common shares	—	—	—	—	(9,678)	—	(9,678)
Net taxes on dividends paid	—	—	—	—	(242)	—	(242)
Options exercised <i>[notes 8 and 9]</i>	15,141	—	—	(7,717)	—	—	7,424
Employee stock option expense <i>[note 9]</i>	—	—	—	3,333	—	—	3,333
Balance, March 31, 2017	2,818,477	533,656	46,200	74,590	265,849	239,943	3,978,715

See accompanying notes

Element Fleet Management Corp.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

[unaudited, in thousands of Canadian dollars]

	Three-month period ended March 31, 2018 \$	Three-month period ended March 31, 2017 \$
OPERATING ACTIVITIES <i>[note 17]</i>		
Net income for the period	21,759	51,845
Items not affecting cash		
Share-based compensation <i>[note 9]</i>	1,856	3,333
Depreciation of property, equipment and leasehold improvements	3,467	2,652
Amortization of intangible assets, including from acquisitions	13,683	15,893
Amortization of deferred lease costs	5,498	4,726
Amortization of deferred financing costs	10,731	7,886
Depreciation of equipment under operating leases	95,303	89,030
Amortization of convertible debenture synthetic discount and deferred costs	5,255	4,941
Share of loss from joint venture investment	10,289	10,244
Share of earnings from other equity accounted investments and non consolidated companies	706	(4,814)
Provision for credit losses	284	—
	168,831	185,736
Changes in non-cash operating assets and liabilities		
Investment in finance receivables	(1,318,482)	(1,517,107)
Repayments of finance receivables	1,212,451	1,080,692
Investment in equipment under operating leases	(153,018)	(158,734)
Proceeds on disposal of equipment under operating leases	60,619	51,288
Syndications of finance receivables	56,970	51,283
Other non-cash operating assets and liabilities <i>[note 17]</i>	(57,112)	40,295
Cash used in operating activities	(29,741)	(266,547)
INVESTING ACTIVITIES <i>[note 17]</i>		
Proceeds from managed fund	—	9,420
Investment in non-consolidated companies	(12,950)	(993)
Increase in restricted funds	(57,506)	(36,922)
Purchase of property, equipment and leasehold improvements	(2,232)	(4,989)
Proceeds on disposals of property, equipment and leasehold improvements, and intangible assets	1,486	215
Purchase of intangible assets	(9,622)	(14,149)
Decrease in notes receivable	(122)	2,651
Increase in deferred financing costs	(121)	(7,297)
Cash used in investing activities	(81,067)	(52,064)
FINANCING ACTIVITIES <i>[note 17]</i>		
Issuance of share capital, net <i>[note 8]</i>	—	7,424
Issuance of secured borrowings, net	159,088	332,423
Dividends paid	(39,595)	(18,591)
Cash provided by financing activities	119,493	321,256
Effects of foreign exchange rates on cash	834	736
Net increase (decrease) in cash during the period	9,519	3,381
Cash, beginning of the period	76,637	12,638
Cash, end of the period	86,156	16,019
Supplemental cash flow information:		
Cash taxes paid	5,944	8,054
Cash interest paid	79,681	91,460

See accompanying notes

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

1. CORPORATE INFORMATION

Element Fleet Management Corp. ["Element Fleet", "EFN" or the "Company"] was incorporated under the *Business Corporations Act* of Ontario (Canada) on May 11, 2007 and commenced operations on that date. The registered office of the Company is 161 Bay Street, Suite 3600, Toronto, Ontario. The Company is a public corporation traded on the Toronto Stock Exchange [the "TSX"] under the symbol "EFN".

Element Fleet is a publicly traded fleet management company with more than \$18.0 billion in assets and operations in the U.S., Canada, Mexico, Australia and New Zealand. Element Fleet is a leading global fleet management company, providing world-class services and financings for commercial vehicle and equipment fleets, serving 50 countries worldwide through the Element-Arval Global Alliance. EFN provides a comprehensive range of fleet services that span the total lifecycle, from vehicle acquisition and financing to program management and remarketing – helping more than 2,800 customers optimize their fleet performance and productivity.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2017, which includes information necessary or useful to understanding the Company's business and financial statement presentation. The results reported in these interim condensed consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year.

These interim condensed consolidated financial statements were authorized for issuance by the Board of Directors of the Company on May 14, 2018.

Accounting policies

These interim condensed consolidated financial statements have been prepared in conformity with accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2017, except for the recently adopted accounting standards discussed below.

Recently adopted accounting standards

IFRS 9, *Financial Instruments* ["IFRS 9"]

Effective January 1, 2018, the Company adopted IFRS 9, issued by IASB. The project was divided into three phases: classification and measurement, impairment of financial assets, and hedge accounting. IFRS 9's classification and measurement methodology provides that financial assets are measured at either amortized cost or fair value on the basis of the entities business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement for financial liabilities remained generally unchanged. The new standard replaced the existing incurred loss model used for measuring the allowance for credit losses with an expected credit loss model. The standard introduced a new hedge accounting model, together with corresponding disclosures about risk management activity for those applying hedge accounting. The Company elected to not restate comparative periods and has recognized any classification and measurement adjustments on January 1, 2018, through opening retained earnings.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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On transition to IFRS 9, the Company's investment in ECAF I Ltd. through ECAF I Holdings Ltd. was classified as fair value through profit and loss ["FVTPL"], as a result the accrued interest previously recognized using the effective interest method for amortized cost investments has been reversed, and the Company recognized a fair value adjustment as described in Note 5 equity accounted investments and Note 19 transition to IFRS 9. In addition, the Company increased the allowance for credit losses as a result of the transition to the expected loss model, including an allowance for loans to 19th Capital Group LLC, as described in Note 5 equity accounted investments and Note 19 transition to IFRS 9. The impact of these two changes has been recognized through opening retained earnings. The Company has adopted hedge accounting under IFRS 9 and there were no adjustments to the Company's Interim Financial Statements and did not have a material impact on our accounting policies.

IFRS 15, Revenue from Contracts with Customers ["IFRS 15"]

Effective January 1, 2018, the Company adopted IFRS 15, issued by IASB. IFRS 15 clarifies revenue recognition principles, provides a robust framework for recognizing revenue and cash flows arising from contracts with customers and enhances qualitative and quantitative disclosure requirements. IFRS 15 does not apply to lease contracts, financial instruments and other related contractual rights and obligations and insurance contracts. The adoption of this standard did not result in any adjustments to the Company's interim financial statements and did not have a material impact on our accounting policies. Revenue segmentation disclosures are as provided in Note 15 segmented information.

Future accounting changes

The following new IFRS pronouncement has been issued but is not yet effective and may have a future impact on the Company's consolidated financial statements:

IFRS 16, Leases ["IFRS 16"]

IFRS 16 will replace IAS 17, *Leases* ["IAS 17"]. IFRS 16 substantially carries forward IAS 17 accounting requirements for lessor accounting, with additional disclosure requirements. For lessee accounting, the new standard will result in almost all leases being accounted for similar to finance leases under IAS 17, including leases previously accounted for as operating leases. IFRS 16 is to be effective for fiscal years beginning on or after January 1, 2019. Management is currently evaluating the potential impact that the adoption of IFRS16 will have on the Company's consolidated financial statements.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

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Changes in accounting policies

This section should be read as a modification to the accounting policies disclosed in the consolidated financial statements for the year ended December 31, 2017:

Allowance for credit losses

IFRS 9 replaces the incurred loss model with the forward-looking expected credit loss ["ECL"] model. The Company is required to assess and segment its loan portfolio into financially healthy with no sign of increased credit risk [Stage 1], increased credit risk but not credit-impaired [Stage 2], and credit-impaired [Stage 3] categories at each consolidated statement of financial position date. Loans are categorized as Stage 2 when either their internal credit rating has declined significantly or when the loan has been delinquent for greater than 60 days. Loans in Stage 1 are applied an ECL over the next twelve months. For loans within Stage 2, the Company records an ECL over the remaining life of the loan. Internal risk rating changes and delinquencies are used by the Company to determine when there has been a significant increase or decrease in credit risk of a loan. The Company has elected as an accounting policy choice to apply the simplified approach to lease receivables and trade receivables to apply lifetime ECL at all times.

ECLs are calculated based on a four probability-weighted scenarios [a base case, an upside, a mild downside, and a more extreme downside]. Each of these is associated with different probability of default ["PD"], exposure at default ["EAD"], and loss given default ["LGD"]. ECL is then calculated under each scenario and weighted by probabilities assigned to each scenario; probability weights are assessed at each reporting period. Forward looking macroeconomic information is incorporated such as changes in GDP on PD and changes in used vehicle index on LGD.

Contractual delinquencies over 120 days are automatically considered defaulted accounts, Stage 3, and are fully provisioned net of any anticipated recoveries and are presented at their net realizable value on the statement of financial position. Accounts are also considered for transfer to Stage 3 when internal or external credit ratings indicate a default, a material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral, or when the borrower has filed for bankruptcy or creditor protection. A borrower is considered cured and moved out of Stage 3 when none of these conditions are present for six consecutive months. Loans are charged-off when the Company has stopped pursuing the recovery.

It is important to note that adoption of IFRS 9 does not have a direct impact on the net charge-off rate of the Company's loans and receivables which is driven by customers' credit profile and behaviour.

Derivatives financial instruments and hedge accounting

The hedge accounting standards under IFRS 9 align the accounting for hedging instruments more closely to the Company's risk management practices. All hedging relationships that were designated under IAS 39 as of December 31, 2017 met the criteria for hedge accounting under IFRS 9.

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

Financial assets and liabilities

The Company recognizes financial assets and liabilities initially at fair value and subsequently measures at either fair value or amortized cost based on their classification under IFRS 9 as described below.

Fair value through profit or loss ["FVTPL"]

Financial assets and financial liabilities that the Company purchases or incurs, respectively, with the intention of generating earnings in the near term are classified as FVTPL. Such assets and liabilities are initially recognized on the consolidated statement of financial position at fair value, with any subsequent changes to fair value recognized through the consolidated statement of operations. Transaction costs as incurred are recognized in the consolidated statement of operations.

Amortized cost

Financial assets held to collect contractual cash flows (in the form of payment of principal and interest earned on the principal outstanding) are classified as amortized cost. The assets are initially recognized at fair value plus directly attributable transaction costs, and subsequently measured at amortized cost using the effective interest rate method.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

3. FINANCE RECEIVABLES

The following tables present finance receivables based on the ultimate obligor's location:

	March 31, 2018			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,445,634	10,914,151	315,874	12,675,659
Unguaranteed residual values	—	17,205	80,895	98,100
Gross investment	1,445,634	10,931,356	396,769	12,773,759
Unearned income	(149,422)	(851,190)	(45,700)	(1,046,312)
Net investment	1,296,212	10,080,166	351,069	11,727,447
Net realizable value of impaired receivables	570	336	4,865	5,771
Unamortized deferred costs and subsidies	(4,501)	(99,339)	—	(103,840)
Prepaid lease payments and security deposits	(6,545)	(27,697)	(26,939)	(61,181)
Interim fundings	51,581	587,375	21,493	660,449
Fleet management service receivables	95,031	524,772	57,058	676,861
Other receivables	2,868	92,019	107,033	201,920
Allowance for credit losses (1)	(324)	(72,574)	(2,408)	(75,306)
Total finance receivables	1,434,892	11,085,058	512,171	13,032,121

	December 31, 2017			
	Canada	US	Other	Total
	\$	\$	\$	\$
Minimum lease payments	1,473,742	10,617,200	281,248	12,372,190
Unguaranteed residual values	—	16,326	71,532	87,858
Gross investment	1,473,742	10,633,526	352,780	12,460,048
Unearned income	(149,772)	(788,515)	(40,281)	(978,568)
Net investment	1,323,970	9,845,011	312,499	11,481,480
Net realizable value of impaired receivables	381	4,225	4,059	8,665
Unamortized deferred costs and subsidies	(5,121)	(99,901)	—	(105,022)
Prepaid lease payments and security deposits	(5,807)	(38,427)	(20,166)	(64,400)
Interim fundings	41,058	533,636	12,523	587,217
Fleet management service receivables	105,005	503,581	51,641	660,227
Other receivables	1,219	120,111	82,940	204,270
Allowance for credit losses (1)	(324)	(2,770)	(1,210)	(4,304)
Total finance receivables	1,460,381	10,865,466	442,286	12,768,133

(1) Allowance for credit losses was prepared under IFRS 9 in fiscal 2018, reflecting the expected credit losses as at period end. The comparable period was prepared under IAS 39 reflecting incurred losses.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

The following table presents the delinquency status of the net investment in finance receivables, by contract balance:

	March 31, 2018 (1)		December 31, 2017	
	\$	%	\$	%
31-60 days past due	4,114	0.04	3,999	0.03
61-90 days past due	3,841	0.03	5,918	0.05
Greater than 90 days past due	1,323	0.01	1,594	0.01
Total past due	9,278	0.08	11,511	0.09
Current	11,718,169	99.92	11,469,969	99.91
Total net investment	11,727,447	100.00	11,481,480	100.00

(1) At March 31, 2018, \$7,105 of the total past due amounts are related to portfolios acquired in the non-core operating segment. The Company maintains a cash holdback/reserve pool or a purchase discount funded by the sellers to cover for losses.

Selected characteristics of finance receivables

	March 31, 2018		December 31, 2017	
	Leases	Loans (1)	Leases	Loans (1)
Net investment	\$ 10,847,971	\$ 879,476	\$ 10,625,691	\$ 855,789
Weighted average fixed interest rate	4.08%	6.05%	3.99%	5.90%
Weighted average floating interest rate	4.45%	9.30%	4.07%	9.71%
Percentage of portfolio with fixed interest rate	46.62%	99.14%	46.04%	98.77%

(1) Included are loans to 19th Capital joint venture of \$794,743 or USD \$616,319, which have a weighted average fixed interest rate of 5.73% [December 31, 2017 - \$775,898 or USD \$617,311, weighted average fixed interest rate of 5.60%].

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

Allowance for credit losses

An analysis of the Company's allowance for credit losses is as follows under IFRS 9:

	Stage 1	Stage 2	Stage 3	Total
Loans				
Balance at January 1, 2018	22	65,193	591	65,806
Transfer to Stage 1	—	—	—	—
Transfer to Stage 2	—	—	—	—
Transfer to Stage 3	—	(40)	40	—
Loan originations	—	—	—	—
Changes in models and inputs, derecognition, and repayments	(6)	(9)	(16)	(31)
Total	16	65,144	615	65,775
Charge-offs, net of recoveries	—	—	—	—
Foreign exchange	1	1,687	16	1,704
Balance March 31, 2018	17	66,831	631	67,479

	Stage 2	Stage 3	Total
Finance Leases			
Balance at January 1, 2018	7,293	39	7,332
Transfer to Stage 2	27	(27)	—
Transfer to Stage 3	—	—	—
Lease originations	2,236	—	2,236
Changes in models and inputs, derecognition, and repayments	(1,922)	—	(1,922)
Total	7,634	12	7,646
Charge-offs, net of recoveries	(44)	—	(44)
Foreign exchange	204	—	204
Balance March 31, 2018	7,794	12	7,806

	Stage 2	Stage 3	Total
Fleet receivables			
Balance at January 1, 2018	7	13	20
Provision for credit losses	—	2	2
Charge-offs, net of recoveries	(1)	—	(1)
Foreign exchange	—	—	—
Balance March 31, 2018	6	15	21

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2018

A summary view of the Company's allowance for credit losses is as follows:

	Three-month period ended March 31, 2018	Year ended December 31, 2017
	\$	\$
Allowance for credit losses, beginning of period	4,304	6,081
IFRS 9 Adjustment	68,854	—
Provision for (recovery of) credit losses	284	(921)
Charge-offs, net of recoveries	(44)	(611)
Impact of foreign exchange rates	1,908	(245)
Allowance for credit losses, end of period	75,306	4,304
Allowance as a percentage of finance receivables	0.57%	0.03%
Finance receivables in arrears [90 days and over]	1,323	1,594
Arrears [90 days and over] as a percentage of net investment in finance receivables	0.01%	0.01%
Impaired receivables, at estimated net realizable value	5,771	8,665

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2018

The following table sets out our credit risk exposure for net investment in all loans and finance leases carried at amortized cost, net realizable value of impaired receivables, other finance receivables, fleet card receivables, net of allowance for credit losses as at March 31, 2018:

Loans	Stage 1	Stage 2	Stage 3	Total
Internal risk rating grade				
Low	1,427	—	—	1,427
Medium	62,076	11,333	—	73,409
High	—	797,400	—	797,400
Not rated	—	—	—	—
Impaired	—	—	4,483	4,483
Allowance for credit losses	(17)	(66,831)	(631)	(67,479)
Net carrying value	63,486	741,902	3,852	809,240
Finance Leases				
		Stage 2	Stage 3	Total
Internal risk rating grade				
Low		6,856,516	—	6,856,516
Medium		3,689,059	—	3,689,059
High		270,508	—	270,508
Not rated		39,128	—	39,128
Other finance receivables		201,919	—	201,919
Impaired		—	1,288	1,288
Allowance for credit losses		(7,794)	(12)	(7,806)
Net carrying value		11,049,336	1,276	11,050,612
Fleet Card Receivables				
		Stage 2	Stage 3	Total
Not rated		675,384	1,478	676,862
Allowance for credit losses		(6)	(15)	(21)
Net carrying value		675,378	1,463	676,841

The Company's internal risk rating grade broadly aligns to external ratings as follows:

Internal risk rating grade	Standard & Poors'	Moody's
Low risk	AAA to BBB-	Aaa to Baa3
Medium risk	BB+ to B-	Ba1 to B3
High risk	CCC+ and below	Caa1 and below
Impaired receivables	Default	Default

**NOTES TO INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

4. EQUIPMENT UNDER OPERATING LEASES

The Company acts as a lessor in connection with equipment under operating leases and continues to recognize the leased assets in its interim condensed consolidated statements of financial position. The lease payments received, net of depreciation, are recognized in income as rental revenue, net.

	March 31, 2018	December 31, 2017
	\$	\$
Cost	2,153,466	2,034,675
Accumulated depreciation	485,479	435,252
Net carrying amount of equipment under operating leases	1,667,987	1,599,423

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

[unaudited, in thousands of Canadian dollars, except where otherwise noted and per share amounts]

March 31, 2018

5. EQUITY ACCOUNTED INVESTMENTS

ECAF I Holdings Ltd.

The Company has a 32.5% interest in ECAF I Holdings Ltd., which is the parent holding company of ECAF I LuxCo S.à r.l., an entity that has invested in Class E-1 notes of ECAF I Ltd., a rated pooled-aircraft asset-backed securities issuer. On adoption of IFRS 9 on January 1, 2018, this investment was classified as fair value through profit and loss in the interim condensed consolidated financial statements of the Company. As a result, \$8,303 of accrued interest was reclassified against opening retained earnings. In addition, a \$9,164 fair value adjustment was recorded against the Company's investment and opening retained earnings.

The carrying amount of the Company's investment is \$116,055 as at March 31, 2018 [December 31, 2017 – \$130,588] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

For the three-month period ended March 31, 2018, the Company has recorded \$233 of income from its investment in associates [three-month period ended March 31, 2017 – \$4,816], which has been included in service and other revenue on the interim condensed consolidated statements of operations.

Amerit Fleet Holdings, LLC

On March 30, 2018, the Company acquired a 15.1% interest in Amerit Fleet Holdings, LLC ["Amerit"], which is the holding company of Amerit Fleet Solutions, Inc., a strategic provider of fleet maintenance and management services in North America, for USD \$9,750 or Canadian \$12,573.

The Company's interest in Amerit is accounted for using the equity method on the interim condensed consolidated financial statements of the Company. The following is a summary of financial information and a reconciliation with carrying amount of the investment on the interim condensed consolidated statements of financial position:

	March 31, 2018
Summarized statement of financial position of Amerit:	
Current assets	33,003
Non-current assets	101,837
Current liabilities	(26,163)
Non-current liabilities	(48,511)
Equity	60,166
Carrying amount of the Company's investment (1)	12,573

(1) Included in the Company's investment is \$3,512 of implied goodwill on a preliminary basis.

The carrying amount of the Company's investment is \$12,573 as at March 31, 2018 [December 31, 2017 – \$nil] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

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Splend Holdings PTY Limited

On August 15, 2017, the Company acquired a 12.5% equity interest in Splend Holdings PTY Limited ["Splend"], a supplier of vehicles for on-demand rideshare and delivery services primarily operating in Australia, for Australian \$7,143 or Canadian \$7,124. The Company's interest in Splend is accounted for using the equity method in the interim condensed consolidated financial statements of the Company. The carrying amount of the Company's investment is \$7,325 as at March 31, 2018 [December 31, 2017 – \$7,015] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

In addition, the Company has provided fleet management services and vehicle financing to Splend at pricing consistent with similar customers of the Company. At March 31, 2018, the Company has provided \$13,406 [December 31, 2017 – \$11,882] of vehicle financings, and commitments to provide additional fleet management services and vehicle financing in various currencies, at a current commitment of Canadian \$92,450 at March 31, 2018 [December 31, 2017 – \$88,599], and a maximum commitment of Canadian \$212,586 [December 31, 2017 – \$198,358] subject to the maintenance of specific terms, conditions and covenants.

For the three-month period ended March 31, 2018, the Company has recorded \$15 of loss from its investment in associate [three-month period ended March 31, 2017 – \$nil], which has been included in share of loss from and provision in equity accounted investments on the interim condensed consolidated statements of operations.

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19th Capital Group LLC

The Company has a 49.99% interest in 19th Capital Group LLC ["19th Capital"], a joint venture involved in the leasing of highway tractors in the U.S. The Company's interest in 19th Capital is accounted for using the equity method in the interim condensed consolidated financial statements. The carrying amount of the Company's investment is \$nil as at March 31, 2018 [December 31, 2017 – \$10,000 or USD \$7,956] and is reported in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

In addition, the Company has provided \$794,743 or USD \$616,319 in loans to the joint venture that have a weighted average fixed interest rate of 5.73% [December 31, 2017 – \$775,898 or USD \$617,311 at 5.60% interest rate] and is reported in finance receivables on the interim condensed consolidated statements of financial position. The loans consist of [a] term loans of \$767,269 or USD \$595,013 that have a weighted average fixed interest rate of 5.68% [December 31, 2017 – \$752,427 or USD \$598,637 at 5.56%], with a latest maturity of December 31, 2023 and are secured by highway tractors and related leases; and [b] a revolving line of credit for working capital of \$27,474 or USD \$21,306 at 7.00% [December 31, 2017 – \$23,471 or USD \$18,674 at 7.00%]. The remaining available for draw on the unsecured line of credit was \$nil [December 31, 2017 – \$nil].

On adoption of IFRS 9 on January 1, 2018 by the Company, a \$65,000 allowance for credit losses was recorded against the loans to the joint venture and opening retained earnings, reflecting the lifetime expected credit loss on the loan. The carrying amount of the allowance for credit losses against the loans to 19th Capital as at March 31, 2018 is \$66,685.

For the three-month period ended March 31, 2018, the Company has recorded \$10,289 or USD \$7,956 of non-cash loss from its investment in 19th Capital [three-month period ended March 31, 2017 – \$10,244 or USD \$7,651].

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6. SECURED BORROWINGS

Secured borrowings outstanding were as follows:

March 31, 2018				
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	3,391,417	2.29	3,678,992	62,947
Term notes, in revolving period	2,579,000	2.11	2,797,686	26,630
Variable-funding notes	3,370,248	2.59	3,613,343	36,029
Other	—	—	—	—
Vehicle management asset-backed debt	9,340,665	2.35	10,090,021	125,606
Term senior credit facility (2)	3,435,650	3.08	—	—
	12,776,315	2.55	10,090,021	125,606
Deferred financing costs	(52,470)			
Total secured borrowings	12,723,845			
December 31, 2017				
	Balance outstanding	Weighted average interest rate (1)	Pledged finance receivables and equipment under operating leases	Cash reserves
	\$	%	\$	\$
Term notes, in amortization period	2,150,569	2.34	2,270,101	49,189
Term notes, in revolving period	4,022,080	2.07	4,245,634	41,428
Variable-funding notes	3,027,353	2.35	3,201,050	32,195
Other	—	—	—	—
Vehicle management asset-backed debt	9,200,002	2.23	9,716,785	122,812
Term senior credit facility (2)	3,168,087	2.77	—	—
	12,368,089	2.36	9,716,785	122,812
Deferred financing costs	(60,216)			
Total secured borrowings	12,307,873			

(1) Represents the weighted average stated interest rate of outstanding debt at period end, and excludes amortization of deferred financing costs, premiums or discounts, stand-by fees and the effects of hedging.

(2) The revolving senior credit facility is secured by a general security agreement in favour of the lenders consisting of a first priority interest on all property.

The Company was in compliance with all financial and reporting covenants with all of its lenders as at March 31, 2018.

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Vehicle management asset-backed debt

Term notes, in amortization period

During the first quarter of 2018, US \$1,200 million of revolving notes were converted into amortizing term notes.

During April of 2018, the Company issued US \$1,000 million of revolving term notes. The proceeds from these issuances were used to pay down variable funding notes.

As at March 31, 2018, the Company has available capacity in variable-funding notes and other of \$3,147,079 [December 31, 2017 – \$3,366,224] under its vehicle management asset-backed debt facilities.

Term senior credit facility

As at March 31, 2018, the Company had available capacity of \$1,077,600 [December 31, 2017 – \$1,231,063] from the term senior credit facility.

Restricted funds

Restricted funds include [i] cash reserves of \$125,606 as at March 31, 2018 [December 31, 2017 – \$122,812], which represent restricted collateral for secured borrowing arrangements; and [ii] cash accumulated in the collection account of \$410,209 as at March 31, 2018 [December 31, 2017 – \$357,398], which represents repayments received on assets financed pursuant to the secured borrowing facilities, which are subsequently remitted back to the facilities on specific dates.

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7. CONVERTIBLE DEBENTURES

Convertible debentures consist of:

March 31, 2018							
Final maturity date	Conversion price per share (2)	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	13.53	5.125	345,000	(3,240)	(9,748)	332,012
Issued on May 29, 2015	June 30, 2020	18.04	4.250	575,000	(11,191)	(14,648)	549,161
				920,000	(14,431)	(24,396)	881,173
December 31, 2017							
Final maturity date	Conversion price per share	Interest rate (1)	Face value	Deferred costs	Synthetic discount	Net carrying value	
	\$	%	\$	\$	\$	\$	
Issued on June 18, 2014	June 30, 2019	13.76	5.125	345,000	(3,860)	(11,590)	329,550
Issued on May 29, 2015	June 30, 2020	18.35	4.250	575,000	(12,402)	(16,230)	546,368
				920,000	(16,262)	(27,820)	875,918

(1) Stated interest rate on principal face value.

(2) The conversion price was adjusted effective as of March 28, 2018, the ex-dividend date for dividends to be paid on April 13, 2018, to \$13.52662 for the June 18, 2014 issuance and \$18.03549 for the May 29, 2015 issuance.

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8. SHARE CAPITAL

The Company is currently authorized to issue [i] an unlimited number of common shares without nominal or par value and [ii] an unlimited number of preferred shares, issuable in series.

	Common shares	
	Shares	Amount
	#	\$
Balance, December 31, 2017	380,355,836	2,755,536
Exercise of options	—	—
Shares repurchased	—	—
Balance, March 31, 2018	380,355,836	2,755,536
Balance, December 31, 2016	387,116,660	2,803,336
Exercise of options	2,253,776	17,518
Shares repurchased	(9,014,600)	(65,318)
Balance, December 31, 2017	380,355,836	2,755,536

Shares repurchased

On June 8, 2017, the TSX approved the Company's notice of intention to commence a Normal Course Issuer Bid [the "NCIB"]. The NCIB allows the Company to repurchase on the open market [or as otherwise permitted], at its discretion during the period commencing on June 12, 2017 and ending on the earlier of June 11, 2018 and the completion of purchases under the NCIB, up to 38,582,483 common shares of the Company, subject to the normal terms and limitations of such bids. Under this bid during the prior year ended December 31, 2017, 9,014,600 common shares have been repurchased for cancellation for \$78,917 at a volume weighted average price of \$8.75 per common share.

Common share dividends

During the three-month period ended March 31, 2018, the Company paid \$28,527 in common share dividends \$0.075 per common share [three-month period ended March 31, 2017 - \$9,678 or \$0.025 per common share].

As at March 31, 2018, un-accrued common share dividends were \$28,527 or \$0.075 per common share [December 31, 2017 - \$28,527 or \$0.075 per common share].

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	Preferred Shares, Series A		Preferred Shares, Series C		Preferred Shares, Series E		Preferred Shares, Series G		Preferred Shares, Series I	
	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount	Shares	Amount
	#	\$	#	\$	#	\$	#	\$	#	\$
Balance, December 31, 2017	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543	6,000,000	146,756
Issuance of shares, net of costs	—	—	—	—	—	—	—	—	—	—
Balance, March 31, 2018	4,600,000	110,375	5,126,400	124,744	5,321,900	129,994	6,900,000	168,543	6,000,000	146,756

Preferred shares

On May 5, 2017, the Company issued, through a public offering, 6,000,000 5.75% Cumulative 5-Year Rate Reset Preferred Shares, Series I ["Series I shares"] at a price of \$25.00 per preferred share for gross proceeds of \$150,000. The issuance included pre-tax transaction costs of \$4,423 [or after-tax transaction costs of \$3,244].

For each five-year period, holders of the Series I shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.64%, provided that, in any event, the annual fixed dividend rate shall not be less than 5.75%. The Company will have the right to redeem the Series I shares on June 30, 2022, and on June 30 every five years thereafter for \$25 per Series I share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series I shares, the holders of the Series I shares will have the right on June 30, 2022, and on June 30 every five years thereafter, to convert all or any of the Series I shares into Series J shares, on the basis of one Series J share for each Series I share converted. Holders of Series J shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.64%.

On May 29, 2015, the Company issued, through a public offering, 6,900,000 6.50% Cumulative 5-Year Rate Reset Preferred Shares, Series G ["Series G shares"] at a price of \$25.00 per preferred share for gross proceeds of \$172,500. The issuance included pre-tax transaction costs of \$5,551 [or after-tax transaction costs of \$3,957].

For each five-year period, holders of the Series G shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of

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five years plus 5.34%. The Company will have the right to redeem the Series G shares on September 30, 2020, and on September 30 every five years thereafter for \$25 per Series G share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series G shares, the holders of the Series G shares will have the right on September 30, 2020, and on September 30 every five years thereafter, to convert all or any of the Series G shares into Series H shares, on the basis of one Series H share for each Series G share converted. Holders of Series H shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 5.34%.

On June 18, 2014, the Company issued, through a public offering, 5,000,000 6.40% Cumulative 5-Year Rate Reset Preferred Shares, Series E ["Series E shares"] at a price of \$25.00 per preferred share for gross proceeds of \$125,000. On July 8, 2014, the underwriters to the prospectus offering exercised their over-allotment option that resulted in the issuance of 321,900 Series E preferred shares at a price of \$25 per share for gross proceeds of \$8,048. The issuance included pre-tax transaction costs of \$4,146 [or after-tax transaction costs of \$3,054].

For each five-year period, holders of the Series E shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.72%. The Company will have the right to redeem the Series E shares on September 30, 2019, and on September 30 every five years thereafter for \$25 per Series E share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series E shares, the holders of the Series E shares will have the right on September 30, 2019, and on September 30 every five years thereafter, to convert all or any of the Series E shares into Series F shares, on the basis of one Series F share for each Series E share converted. Holders of Series F shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.72%.

On March 7, 2014, the Company issued, through a public offering, 5,126,400 6.50% Cumulative 5-Year Rate Reset Preferred Shares, Series C ["Series C shares"] at a price of \$25.00 per preferred share for gross proceeds of \$128,160. The issuance included pre-tax transaction costs of \$4,639 [or after-tax transaction costs of \$3,416].

For each five-year period, holders of the Series C shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.81%. The Company will have the right to redeem the Series C shares on June 30, 2019, and on June 30 every five years thereafter for \$25 per Series C share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series C shares, the holders of the Series C shares will

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have the right on June 30, 2019, and on June 30 every five years thereafter, to convert all or any of the Series C shares into Series D shares, on the basis of one Series D share for each Series C share converted. Holders of Series D shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.81%.

On December 17, 2013, the Company issued, through a public offering, 4,600,000 6.60% Cumulative 5-Year Rate Reset Preferred Shares, Series A ["Series A shares"] at a price of \$25.00 per preferred share for gross proceeds of \$115,000. The issuance included pre-tax transaction costs of \$6,281 [or after-tax transaction costs of \$4,613].

For each five-year period, holders of the Series A shares are entitled to receive a fixed, cumulative, preferential cash dividend, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annual dividend rate will reset at each five-year period to the non-callable Government of Canada bond yield with a term to maturity of five years plus 4.71%. The Company will have the right to redeem the Series A shares on December 31, 2018, and on December 31 every five years thereafter for \$25 per Series A share, plus accrued and unpaid dividends. Subject to the right of the Company to redeem the Series A shares, the holders of the Series A shares will have the right on December 31, 2018, and on December 31 every five years thereafter, to convert all or any of the Series A shares into Series B shares, on the basis of one Series B share for each Series A share converted. Holders of Series B shares are entitled to receive floating rate cumulative preferential cash dividends, if, as and when declared by the Board of Directors, payable quarterly on the last business day of March, June, September and December in each year. The annualized floating quarterly dividend rate will equal the sum of the average three-month Government of Canada Treasury Bill rate plus 4.71%.

Preferred share dividends

During the three-month period ended March 31, 2018, the Company paid \$11,068 in preference share dividends [three-month period ended March 31, 2017 – \$8,912].

As at March 31, 2018, the un-accrued cumulative preference share dividends were \$122 [December 31, 2017 – \$122].

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9. SHARE-BASED COMPENSATION

Share-based compensation expense consists of the following for the three-month periods ended March 31:

	2018	2017
	\$	\$
[a] Stock options	1,856	3,333
[b] Deferred share units	(408)	1,889
[c] Performance share units	2,917	2,432
[d] Restricted share units	182	1,266
	4,547	8,920
Allocated as:		
Share-based compensation	4,547	6,036
Transaction and integration costs	—	2,884
	4,547	8,920

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[a] Stock options

The changes in the number of stock options during the periods were as follows:

	Number of options #	Weighted average exercise price \$
Outstanding, December 31, 2016	24,737,562	10.37
Granted	963,639	12.73
Forfeited	(262,773)	12.81
Expired	(391,808)	12.38
Exercised (1)	(3,678,327)	7.39
Outstanding, December 31, 2017	21,368,293	10.92
Granted	—	—
Forfeited	(78,770)	12.66
Expired	(73,037)	10.13
Exercised (1)	—	—
Outstanding, March 31, 2018	21,216,486	10.92

(1) Weighted average share price of options exercised during the three-month period ended March 31, 2018 was \$nil [year ended December 31, 2017 – \$12.63].

The fair value of the options granted during the periods determined using the Black-Scholes option valuation model with inputs to the model as follows:

	Unit	Three-month period ended March 31, 2018	Year ended December 31, 2017
Weighted average share price	\$	—	12.73
Average term to exercise	Years	—	7.0
Share price volatility	%	—	29.0
Weighted average expected annual dividend	\$	—	0.30
Risk-free interest rate	%	—	1.40
Forfeiture rate	%	—	1.02

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[b] Deferred share units, performance share units and restricted share units

	Deferred share units #	Performance share units #	Performance share units referenced to ECN Capital Corp. #	Restricted share units #
Outstanding, December 31, 2016	1,705,011	1,331,771	1,326,952	636,352
Granted	143,076	272,640	3,699	816,695
Forfeited	—	(249,187)	(248,176)	—
Redeemed	(454,100)	(1,086,290)	(1,082,475)	(197,632)
Outstanding, December 31, 2017	1,393,987	268,934	—	1,255,415
Granted	11,062	2,134	—	9,963
Forfeited	—	—	—	—
Redeemed	(202,844)	(66,092)	—	(200,381)
Outstanding, March 31, 2018	1,202,205	204,976	—	1,064,997

[i] Deferred share units ["DSU"]

Subsequent to the distribution to the shareholders of the distributed operations, Element DSUs were adjusted such that the underlying share applicable to each Element DSU shall refer to an Element Fleet common share. The aggregate number of Element Fleet DSUs for each Element Fleet participant shall be equal to (A) the number of Element DSUs held multiplied by (B) the fair market value of an Element common share immediately prior to the Separation divided by the fair market value of an Element Fleet common share following completion of the Separation, with the fair market value determined by the Board based on an independent valuation performed; this amount has been determined to be 1.239245 times the Element DSUs. This adjustment provides Element DSU holders with an aggregate value after the Separation equal to the aggregate value held immediately prior to the Separation, 379,641 units were issued to effect the distribution.

As at March 31, 2018, the fair value of DSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$4,989 [December 31, 2017 – \$13,243].

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[ii] Performance share units ["PSU"]

Subsequent to the distribution to the shareholders of the distributed operations, Element PSUs were adjusted such that for each Element PSU outstanding, the PSU is referenced to an Element Fleet common share ["EFN PSU"], and an additional PSU was issued and referenced to an ECN Capital common share ["ECN PSU"], such that the aggregate value immediately following the distribution is equal to the aggregate value of the Element PSUs immediately prior to the distribution, 1,386,576 ECN PSUs were issued to effect the distribution.

As at March 31, 2018, 204,976 EFN PSUs and nil ECN Capital PSUs remain unvested and outstanding, and the amortized fair value of PSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$842 [December 31, 2017 – 268,934 EFN PSUs and \$1,746 of liabilities]. Certain PSUs issued during 2017 contain a multiplier factor and the final number of PSUs that will vest will range from 50% to 200% of the initial number awarded based on certain performance targets. The PSUs outstanding will vest on achievement of specific performance conditions over 2017, 2018 and 2019.

[iii] Restricted share units ["RSU"]

As at March 31, 2018, 1,064,997 RSUs remain unvested and outstanding, and the amortized fair value of RSUs recorded on the interim condensed consolidated statements of financial position as accounts payable and accrued liabilities was \$1,338 [December 31, 2017 – 1,255,415 RSUs and \$2,667 of liabilities]. The RSUs outstanding will vest over one, two and three years.

[iv] Hedging of DSUs, PSUs and RSUs

As at March 31, 2018, the Company has hedged 2,379,734 Element Fleet referenced share units and nil ECN Capital referenced share units, with net derivative liabilities of \$17,593, which will be applied to the settlement of PSU, RSU and DSU awards [December 31, 2017 – 2,361,032 EFN and nil ECN Capital referenced share units hedged and net derivative liabilities of \$5,030 for PSU, RSU, and DSU awards].

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10. REVENUES

Service and other revenue, includes fuel cards, accident management services and maintenance services revenues. Also included in service and other revenue are syndication fees, which represent commissions received when the Company facilitates a lease arrangement between a lessee and a third party lessor. The comparative periods have been adjusted to reflect removing internal expenses related to service delivery from service and other revenue to salaries, wages and benefits, and general and administrative expenses to be consistent with the current period presentation. The comparative period has also been adjusted to reflect removing external costs related to certain service contracts from service and other revenue, to direct costs of fixed rate service contracts. The adjustment for internal expenses and external costs were \$10,875 for the three-month periods ended March 31, 2017.

Interest income, net consists of the following for the three-month periods ended March 31:

	2018	2017
	\$	\$
Interest income	153,452	152,609
Provision for (recovery of) credit losses <i>[note 4]</i>	284	—
Interest income, net	153,168	152,609

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11. NOTES RECEIVABLE

Notes Receivable

The notes receivable of \$19,792 as at March 31, 2018 [December 31, 2017 – \$19,670] represent loans to certain employees and officers of the Company. These loans bear interest at a rate of 3% per annum. Interest is payable monthly or annually, and the principal is payable on demand in the event of non-payment of interest. The loans were granted in order to help finance the purchase of the Company's shares and are secured by the shares purchased with full recourse to the employee.

The changes in the notes receivable during the periods were as follows:

	Three-month period ended March 31, 2018	Year ended December 31, 2017
	\$	\$
Notes receivable, beginning of period	19,670	22,078
Additions	—	—
Interest income	140	556
Repayments [interest and principal]	(18)	(2,964)
Notes receivable, end of period	19,792	19,670

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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12. EARNINGS PER SHARE

Basic earnings per share are as follows for the three-month periods ended March 31:

	2018	2017
Net income attributable to shareholders	\$ 21,759	\$ 51,845
Cumulative dividends on preferred shares	\$ (11,068)	\$ (8,912)
Net income available to common shareholders	\$ 10,691	\$ 42,933
Weighted average number of common shares outstanding – basic [number]	380,355,836	387,710,837
Basic earnings per share	\$ 0.03	\$ 0.11

Diluted earnings per share is as follows for the three-month periods ended March 31:

	2018	2017
Net income available to common shareholders adjusted for the effects of dilution	\$ 10,691	\$ 42,933
Weighted average number of common shares outstanding – basic [number]	380,355,836	387,710,837
Dilutive stock options and warrants [number]	651,630	4,647,899
Weighted average number of common shares outstanding – diluted [number]	381,007,466	392,358,736
Diluted earnings per share	\$ 0.03	\$ 0.11

Instruments outstanding as at March 31, 2018 that could potentially dilute basic earnings per share in the future, but were not included in the calculation of diluted earnings per share because they were anti-dilutive, include 17,504,321 stock options for the three-month period ended March 31, 2018 [three-month period ended March 31, 2017 – 6,478,134 stock options].

In addition, the convertible debentures [note 7] were excluded from the diluted earnings per share calculation as these were anti-dilutive for the three-month period ended March 31, 2018 and 2017.

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13. DERIVATIVE FINANCIAL INSTRUMENTS

In the normal course of business, and consistent with its risk management program, the Company enters into interest rate derivatives to manage interest rate risk, foreign exchange forward agreements to manage foreign currency exposure, and total return swaps to manage exposure to share-based compensation.

Cash flow hedging relationships

The following table presents the fair value changes related to the cash flow hedges included in the Company's results for the three-month periods ended March 31:

	2018	2017
	\$	\$
Foreign exchange agreements recorded in other revenues	11,092	(4,667)
Fair value changes recorded in other comprehensive income (loss)	4,873	(31,624)

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Notional amounts and fair values of derivative instruments

The following table summarizes the notional principal and fair values of the derivative financial instruments outstanding:

	March 31, 2018 \$	December 31, 2017 \$
Notional principal		
Derivative assets		
Interest rate contracts	2,793,282	5,101,664
Foreign exchange agreements	372,975	385,668
Derivative assets	<u>3,166,257</u>	<u>5,487,332</u>
Derivative liabilities		
Interest rate contracts	7,367,393	4,695,810
Foreign exchange agreements	494,877	364,637
Total return swaps	27,492	27,492
Derivative liabilities	<u>7,889,762</u>	<u>5,087,939</u>
Fair values		
Restricted funds - collateral	<u>18,540</u>	4,070
Derivative assets		
Interest rate contracts	29,560	31,197
Foreign exchange agreements	1,458	829
Derivative assets	<u>31,018</u>	<u>32,026</u>
Derivative liabilities		
Interest rate contracts	26,652	26,730
Foreign exchange agreements	354	1,582
Total return swaps	17,593	5,030
Derivative liabilities	<u>44,599</u>	<u>33,342</u>

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Fair values of derivatives designated in hedging relationships

The following table summarizes the fair values of the derivative financial instruments designated in an accounting hedging relationship, as at:

	March 31, 2018	December 31, 2017
	\$	\$
Interest rate contracts	2,908	4,467
Foreign exchange agreements	1,104	(753)
Total return swaps	(17,593)	(5,030)
	(13,581)	(1,316)

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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Offsetting of derivative assets and liabilities

The following table presents a summary of the Company's derivative portfolio, which includes the gross amounts of recognized financial assets and liabilities; the amounts offset in the interim condensed consolidated statements of financial position; the net amounts presented in the interim condensed consolidated statements of financial position; the amounts subject to an enforceable master netting arrangement or similar agreement that were not included in the offset amount mentioned above; and the amount of cash collateral received or pledged.

	Gross amounts of recognized financial instruments before netting on the Consolidated Statements of Financial Position	Gross amounts of recognized financial instruments set-off in the Consolidated Statements of Financial Position	Net amount of financial instruments presented in the Consolidated Statements of Financial Position	Amounts subject to an enforceable master netting agreement	Collateral	Net amount
	\$	\$	\$	\$	\$	\$
As at March 31, 2018						
Derivative financial instrument assets	31,018	—	31,018	14,029	—	16,989
Derivative financial instrument liabilities	44,599	—	44,599	14,029	18,540	12,030
As at December 31, 2017						
Derivative financial instrument assets	32,026	—	32,026	18,503	—	13,523
Derivative financial instrument liabilities	33,342	—	33,342	18,503	4,070	10,769

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14. CAPITAL DISCLOSURES

The Company's objectives when managing capital are to ensure sufficient liquidity to support its financial objectives and strategic plans, to ensure its financial covenants are met and to maximize shareholder value.

The Company's capitalization is as follows, as at:

	March 31, 2018	December 31, 2017
	\$	\$
Secured borrowings	12,723,845	12,307,873
Convertible debentures	881,173	875,918
Total debt	13,605,018	13,183,791
Shareholders' equity	3,802,466	3,740,083
	17,407,484	16,923,874

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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15. SEGMENTED INFORMATION

[A] Operating Segments

Post Separation, certain assets have remained with or acquired by Element that are not considered pure fleet assets and/or typical earnings assets in a pure fleet management company. Assets have remained from Separation for various commercial and structuring reasons, and the related strategy for each is dependent upon many factors including, but not limited to, cross-selling opportunities with core fleet services, current and expected market conditions related to valuation, and overall risk relative to the size of the Company.

Due to the differing characteristics of these assets and operations from pure fleet management, the Company amended its internal management reporting process during fiscal 2017, resulting in the Company moving from a single segment to two operating and reporting segments consisting of [a] the Fleet Management segment and, [b] the Non-Core segment. The segments are evaluated on reported and adjusted measures such as net revenue, adjusted operating expenses, adjusted operating income, return on tangible equity and leverage.

Segmented Operating Results

	Three-month period ended March 31, 2018			Three-month period ended March 31, 2017		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Net revenue						
Service and other revenue	128,480	652	129,132	128,443	19,073	147,516
Interest and rental revenue, net	170,858	12,866	183,724	162,187	17,797	179,984
	299,338	13,518	312,856	290,630	36,870	327,500
Interest expense	90,891	10,622	101,513	78,628	10,460	89,088
Net revenue	208,447	2,896	211,343	212,002	26,410	238,412
Operating Expenses						
Salaries, wages and benefits	81,535	730	82,265	74,144	788	74,932
General and administrative expenses	33,354	486	33,840	36,076	614	36,690
Depreciation and amortization	5,280	—	5,280	3,725	—	3,725
	120,169	1,216	121,385	113,945	1,402	115,347
Net segment operating income (before tax)	88,278	1,680	89,958	98,057	25,008	123,065
Share of loss from and provision in equity accounted investments	—	10,304	10,304	—	10,244	10,244
Net segment income (before tax)	88,278	(8,624)	79,654	98,057	14,764	112,821
Share-based compensation			4,547			6,036
Amortization of convertible debenture synthetic discount			3,424			3,206
Business acquisition and other costs			52,682			50,867
Provision for (recovery) income taxes			(2,758)			867
Net income for the period			21,759			51,845

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Segmented Financial Position

	As at March 31, 2018			As at December 31, 2017		
	Fleet Management	Non-Core	Total	Fleet Management	Non-Core	Total
	\$	\$	\$	\$	\$	\$
Select balance sheet information						
Finance receivables	12,214,444	817,677	13,032,121	11,904,630	863,503	12,768,133
Equipment under operating leases	1,667,987	—	1,667,987	1,599,423	—	1,599,423
Investment in joint venture (1)	—	—	—	—	10,000	10,000
Other investments (1) (2)	—	116,055	116,055	—	122,285	122,285
Goodwill and intangible assets	2,071,371	—	2,071,371	2,028,652	—	2,028,652
Total select segment assets	15,953,802	933,732	16,887,534	15,532,705	995,788	16,528,493
Corporate assets			1,172,778			1,041,140
Total assets			18,060,312			17,569,633

(1) Included in accounts receivable and other assets on the interim condensed consolidated statements of financial position.

(2) Other investments in the comparable period included the 32.5% interest in ECAF I Holdings Ltd., which was accounted for using the effective interest rate method and considered an earning asset. Upon adoption of IFRS 9 on January 1, 2018 by the Company, the investment is accounted for using fair value through profit and loss and no longer considered an earning asset.

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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[B] Geographic information

The Company primarily operates in Canada, the US and Other.

Geographic information is as follows:

	March 31, 2018				March 31, 2017			
	Canada	US	Other	Total	Canada	US	Other	Total
For the three-month period ended	\$	\$	\$	\$	\$	\$	\$	\$
Net revenue excluding interest expense	26,233	223,326	63,297	312,856	44,402	222,636	60,462	327,500
Interest expense				(101,513)				(89,088)
Net revenue				211,343				238,412

	March 31, 2018				December 31, 2017			
	Canada	US	Other	Total	Canada	US	Other	Total
As at	\$	\$	\$	\$	\$	\$	\$	\$
Select assets								
Finance receivables	1,434,892	11,085,058	512,171	13,032,121	1,460,381	10,865,466	442,286	12,768,133
Equipment under operating leases	—	—	1,667,987	1,667,987	—	—	1,599,423	1,599,423
Goodwill and intangible assets	198,157	1,840,433	32,781	2,071,371	199,077	1,797,079	32,496	2,028,652
Property, equipment and leasehold improvements	5,405	50,136	10,832	66,373	5,529	50,528	11,352	67,409
	1,638,454	12,975,627	2,223,771	16,837,852	1,664,987	12,713,073	2,085,557	16,463,617

Geographic net revenue, excluding interest expense is based on the location of customers, and select assets are based on the location of the assets.

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16. FAIR VALUE OF FINANCIAL INSTRUMENTS

For the purposes of fair value disclosures, financial instruments have been separated into the following classes: finance lease receivables, finance loans receivable, secured borrowings on finance receivables, convertible debentures, notes receivable, and derivatives.

Valuation methods and assumptions

Finance lease receivables

The carrying value of finance lease receivables approximates fair value. The assertion that the carrying value of the finance receivables approximates fair value requires the use of estimates and significant judgment. Finance receivables are classified as Level 3 financial instruments. The finance receivables were credit-scored based on an internal model that is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Finance loans receivables

The carrying value of finance loans receivables was \$879,476 and the estimated fair value was \$819,000 to \$865,000 as at March 31, 2018 [December 31, 2017 – \$795,000 to \$840,000]. Included in the carrying value as at March 31, 2018 is \$794,743 related to loans provided to the 19th Capital joint venture, with an estimated fair value of \$734,000 to \$780,000 [December 31, 2017 – \$715,000 to \$760,000]. The fair value of finance loans receivable is determined by discounting the stream of principal and interest at a rate of interest for instruments of similar terms and credit risks as at March 31, 2018. Finance loans receivables are classified as Level 3 financial instruments, whereby fair value is determined using valuation techniques and inputs not based on observable market data.

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Secured borrowings on finance receivables

The carrying value of secured borrowings on finance receivables approximates fair value. The assertion that the carrying value of the secured borrowings approximates fair value requires the use of estimates and significant judgment. Secured borrowings on finance receivables are classified as Level 3 financial instruments. The finance receivables securing the borrowings were credit-scored based on an internal model that is not used in market transactions. They comprise a large number of transactions with commercial customers in different businesses, are secured by liens on various types of equipment and may be guaranteed by third parties and cross-collateralized. The fair value of any receivable would be affected by a potential buyer's assessment of the transaction's credit quality, collateral value, guarantees, payment history, yield, term, documents and other legal matters, and other subjective considerations. Value received in a fair market sale transaction would be based on the terms of the sale, the buyer's views of the economic and industry conditions, the Company's and the buyer's tax considerations, and other factors.

Convertible debentures

The debt component of convertible debentures is recorded at fair value on initial recognition and subsequently carried at amortized cost as presented in note 7. The fair market value of the debt component as at March 31, 2018 was estimated at \$903,892 by discounting the stream of remaining payments at 5.50%, which represents the rate of interest prevailing for instruments of similar terms and risks without the conversion feature. Convertible debentures are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Notes receivable

The carrying value of the notes receivable approximates their fair value, as the interest rate on this asset is commensurate with market interest rates for this type of asset with similar duration and credit risk. Notes receivable are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

Derivatives

The fair values of derivatives are presented in note 13 and are determined by the derivative counterparty using the related interest rate swap curves, foreign exchange forward values, intrinsic values and/or the Company's stock price for the total return swaps. Derivatives are classified as Level 2 financial instruments, whereby fair value is determined using valuation techniques and observable inputs.

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**17. SUPPLEMENT TO INTERIM CONDENSED CONSOLIDATED
STATEMENTS OF CASH FLOWS**

Cash flow from other non-cash operating assets and liabilities for the three-month periods ended:

	March 31, 2018	March 31, 2017
	\$	\$
Changes in other non-cash operating assets and liabilities		
Accounts receivable and other assets	22,932	(34,291)
Accounts payable and accrued liabilities	(41,005)	98,545
Deferred tax assets	(58,058)	(15,988)
Deferred tax liabilities	19,239	1,053
Derivative financial instruments	(220)	(9,024)
	(57,112)	40,295

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The interim condensed consolidated statements of cash flows reflect only the impact of the Company's activities during the period. To simplify understanding of these transactions, and the related non-cash components, the major statement of financial position changes are more fully detailed below with indications as to the amounts included in the interim condensed consolidated statements of cash flows.

	For the three- month period ended March 31, 2017
	\$
Finance receivables [note 4]	
Balance as at December 31, 2017	12,768,133
Originations [included in cash flows]	1,318,482
Repayments [included in cash flows]	(1,212,451)
Assets sold to syndications [included in cash flows]	(56,970)
Amortization of deferred lease costs [adjustment to income in cash flows]	(5,498)
Impact of non-cash transfers	(14,956)
Provision for credit losses [adjustment to income in cash flows]	(284)
Impact of foreign exchange translation [excluded from cash flows]	235,665
Balance as at March 31, 2018	13,032,121
Equipment under operating leases [note 5]	
Balance as at December 31, 2017	1,599,423
Originations [included in cash flows as investment in equipment under operating leases]	153,018
Disposals [included in cash flows]	(60,619)
Amounts transferred from inventory	—
Depreciation of equipment under operating leases [adjustment to income in cash flows]	(95,303)
Impact of foreign exchange translation [excluded from cash flows]	71,468
Balance as at March 31, 2018	1,667,987

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	For the three- month period ended March 31, 2017
	\$
Secured borrowings <i>[note 10]</i>	
Balance as at December 31, 2017	12,307,873
Net issuance [included in cash flows]	159,088
Increase in deferred financing costs [included in cash flows]	(121)
Amortization of deferred financing costs [adjustment to income in cash flows]	10,731
Impact of foreign exchange translation [excluded from cash flows]	246,274
Balance as at March 31, 2018	12,723,845

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18. PROVISIONS

During the three-month period ended March 31, 2018, the Company recorded a restructuring provision of \$40.0 million [three-month period ended March 31, 2017 – \$nil] for severance and other termination costs of employees, and office closure costs. As at March 31, 2018, the restructuring provision of \$17.4 million [March 31, 2017 – \$nil] is expected to be utilized within the next twelve months and is included in accounts payable and accrued liabilities on the interim condensed consolidated statements of financial position.

The changes in the provisions during the periods were as follows:

	Restructuring Provision
	\$
As at January 1, 2018	—
Additional provisions created	40,000
Utilized	(22,576)
Foreign exchange adjustments	-
As at March 31, 2018	17,424

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19. TRANSITION TO IFRS 9

The following table shows the pre-transition IAS 39 and post-transition IFRS 9 classification and measurement categories, and reconciles the IAS 39 and IFRS 9 carrying amounts for finance receivables and other financial assets as at January 1, 2018 as a result of adopting IFRS 9:

	IAS 39 Measurement category	IFRS 9 Measurement category	IAS 39 carrying value as at December 31, 2017	Reclassification	Remeasurement	IFRS 9 Carrying value as at January 1, 2018
			\$	\$	\$	\$
Financial Assets						
ECAF	Amortized cost	FVTPL	130,588	(8,303)	(9,164)	113,121
Finance receivables	Amortized cost	Amortized cost	12,768,133	—	(68,854)	12,699,279
Total pre-tax impact of IFRS 9 adoption			12,898,721	(8,303)	(78,018)	12,812,400
Total after-tax Retained earnings			248,843	(6,300)	(59,004)	183,539
Total after-tax Shareholders' Equity			3,740,083	(6,300)	(59,004)	3,674,779

20. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.